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Investment Executives in High Demand

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Complying with new regulations, preparing to capture the assets of retiring Baby Boomers and offering alternative investments is prompting investment firms to seek out and retain top talent—with increased compensation as a key leverage.

In the next year, senior executives at mutual fund and other money management firms will see their total compensation increase by 20% or more, according to the 10th annual "Asset and Wealth Management Recruiting Trends" report by executive search firm Russell Reynolds Associates of New York.

Firms are starting to offer mid-year bonuses and higher second-year compensation packages in order to retain key employees and slow turnover rate, said George Wilbanks, managing director at Russell Reynolds. Second-year guarantees that increase total compensation by 25% to 50% are now common as well, he noted. Bonus pools are up 20% from last year and, in some instances, twice that, he said.

"Firms are willing to pay aggressively for strong performance," Wilbanks said. "These trends are occurring across the board globally."

On the retail distribution side of the business, there was a significant increase in recruiting activities in the C-suite involving staff functions within strategic marketing, compliance, finance, technology, and operations, according to Russell Reynolds. In addition, firms hired sales professionals at all levels.



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"A lot of firms are moving aggressively toward upgrading their management teams to help solve problems," Wilbanks said. Furthermore, firms are focusing on long-range plans and adding key leadership roles such as heads of distribution, channel sales, product management and development.

There have been more hires for these jobs this year than in the past five, Wilbanks noted. Hiring has increased exponentially because executives are confident about the industry and investment performance has been high, recruiting experts stated.

Additionally, the 77 million Baby Boomers set to retire and the Pension Protection Act are fueling an increase in post-retirement advice and guidance, which is creating jobs in the market. Securities firms, insurance companies, investment organizations and banks are all competing to provide advice and find talent that can help them structure and deliver solutions. Sophisticated and innovative products such as annuities, unified managed accounts and exchange-traded funds have revived the past dormant market for the U.S. retail distribution talent, according to Russell Reynolds.

"The buzz is around post-retirement advice and guidance for investors. Firms are trying to create solutions to make clients' money last them the rest of their life," Wilbanks said.

Regarding investment management professionals, recruiting equity portfolio managers and teams remained strong throughout the year, the most demand being in the area of value, international and quantitative professionals. The demand for quantitative portfolio managers in equities and fixed income should continue into next year as the ability to assess risk is in high demand, said Debra Brown, managing director at Russell Reynolds.

Looking forward, Russell Reynolds expects the demand for team hiring to continue as it offers a turnkey solution for firms responding to market challenges by filling out gaps in their product line.

Last year, Russell predicted that there would be an increase in demand for growth equity portfolio managers, but the demand did not materialize and "there were very few recruiting searches for growth managers," Brown said. Although the market kept anticipating a growth comeback, it didn't happen. Now, however, "the long-anticipated inflection point of growth over value has finally arrived, and it is being manifested in recruiting mandates," according to the report.

Although net inflows to hedge funds and fund-of-funds contracted early this year, they have since risen and now average between 10% to 15%. With investors increasingly seeking quality funds, large players with \$1 billion or more in assets under management as well as start-up and niche firms are expected to thrive and gain market share. Mid-size firms with

\$200 million to \$300 million in assets under management, which make up 60% of all hedge funds, may be disadvantaged—particularly as hedge funds move to more illiquid, private equity strategies, requiring access to larger capital pools to be competitive.

Despite increased scrutiny and pressure to justify fees and lock-ups, if a hedge fund has consistent performance and generates returns, investors will continue paying the high fees, said Lynn Tidd, managing director at Russell Reynolds.

Traditional equity shops are taking on alternative and hedging strategies, blurring their distinction, the report noted. "An increasing number of industry veterans predict the term 'alternative asset management' may become obsolete as both hedge funds and traditional asset managers compete to excel in broad asset management' with high performance and high fee-generating alpha defining a firm's competitive edge," Tidd said.

As a result, investment banks, private equity firms and long-only shops are looking to recruit talent away from hedge funds. To attract this talent and retain existing employees, some Wall Street firms have started to allow their top-performing and highest compensated employees to invest in the firm's hedge funds, private equity and real estate funds.

With hedge fund professionals in such high demand, hedge funds, likewise, could look into the untapped recruiting pool of sell-side and long-only firms, Tidd suggested.

Compensation across the board is up for hedge funds, but whereas before, traders and portfolio managers saw the large bucks, this year, the pool is now trickling down to compliance, marketing and technology employees, Tidd observed.

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